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Notes on Public Sector Reform and Performance Management

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International Themes
of Public Sector Reform
and Performance Management

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International Themes of Public Sector Reform and Performance Management

Performance management has been a key aspect of public sector reforms in many countries all over the world. Performance management systems have been developed in many fields of public administration, including financial and budgetary systems, human resource management, policy-making processes, service delivery, etc.

Based on research of public sector reforms and practices in four countries — Australia, New Zealand, the United Kingdom, and the United States of America,— this section will discuss the international themes emerging from these reforms.

Conceptual Framework

In many countries there has been ideological and technical discussions about the legitimacy of government in society. Democratic “deficits” arose and gaps between the state and its citizens became obvious to politicians and the general public alike.

In his book, *The Legitimation of Power*, Beetham presents a framework of legitimate governance¹:

- Firstly, there is legality, which means that there is a correspondence between decisions and rules according to the principle of the rule of law.
- Second, there is a legitimacy of law, requiring that legislative and legal power and the laws and regulations themselves must be legitimate.
- Third, there is legitimate use of power, meaning that the state and its use of power are oriented toward the general interest.
- Fourth, government must have the approval of citizens, including sometimes citizens disagreeing with those responsible for public policy and public management.

The “general interest” in the third element is prominent in the discussion of challenges that governments are facing, which can be explained as the dissatisfaction with the fiscal problems, demands for better services, and the ongoing globalization. The notion that government must have the approval of citizens in the fourth element drives government to work towards the interest of citizens, which also works as one of the main drivers of public sector reform all over the world.

Comprehensive reformers in many countries have engaged in extensive marketization via privatization and contracting out, restructuring their public sectors through downsizing and decentralization, and establishing a customer orientation in service provision.

¹ D. Beetham, *The Legitimation of Power*, London: McMillan, 1991.

Public sector reform can be defined in many ways. According to the purpose of this research, the definition chosen is that *public management reform consists of deliberate changes to the structures and process of public organizations with the objective of getting them to run better.*² At this point, the term “run better” can be understood as meaning to improve the performance of the government, to work better with less, and to provide better services to its citizens. Further explained by Christopher Pollitt and Geert Bouckaert³,

- Structural changes may include merging or splitting public sector organizations (creating a small number of bigger departments to improve co-ordination or a larger number of smaller departments to sharpen focus and encourage specialization);
- Process changes may include the redesign of the systems of quality standards for services or the introduction of new budgeting procedures that encourage public servants to be more conscious and/or to monitor more closely the results that their expenditures generate; and
- Management reforms also embrace changes to the systems by which public servants themselves are recruited, trained, appraised, promoted, disciplined, and declared redundant.

A different but similar definition is provided by Colin Knox, who states that public service reforms in a comparative context can be captured by the term New Public Management.⁴ At the heart of Knox’s reforming ideology is the notion that public service provision tends to be inefficient and of poor quality, and that it needs to learn from the private sector. This notion includes a greater emphasis on performance measurement, the promotion of competition, improvements in financial management, a focus on service outputs, and private style management practices, which empower public sector consumers.

Knox also provides a framework of public sector reform. A generic framework for public sector reform comprises three core elements:

- pressures driving the need for reforms, which derive from both the socio-economic and the political context;
- feasible changes that can be achieved (as opposed to what might be desirable); and
- the extent to which the reforms can be implemented.

Another framework of public sector reforms is provided by the OECD study: *In Search of Results: Performance Management Practices*. Drawing on the elements of legitimacy and the challenges face by many countries, the OECD distils the main issues

² Christopher Pollitt and Geert Bouckaert. *Public Management Reform: A Comprehensive Analysis*, Oxford University Press, 2000, p. 8.

³ *Ibid.*

⁴ Colin Knox, *Review of Public Administration Briefing Paper: Public Service Reform*, [<http://www.rpani.gov.uk/reform.pdf>], Northern Ireland, University of Ulster, 2002.

in the trend toward performance governance⁵:

- A normative position on the size of government in society; this is a function of societal performance requirements and it has implications in terms of savings and budget size;
- Positioning among different actors in society “to get things done” and define relationships, e.g., citizens as customers, private sector, public managers; this has implications for well-performing networks, partnerships, and interactions;
- Performance management in the public sector itself, which is about well-performing policy management and service delivery.

The major elements in performance management are the objectives, approaches, institutional arrangements, and performance information systems. There are different objectives in developing, implementing, pursuing, and evaluating performance management.

Based on the understanding of these concepts and the existing frameworks of public sector reforms and performance management, the framework of this study is set as the following.

- Challenges, pressures, and drivers, which are discussed as *Background* in the country sections of this report;
- Feasible and achieved changes, including structural changes, process changes, management changes, and changes towards better performance, which are entitled *Main Initiatives* in the country sections of this report;
- Success factors with which public sector reforms achieved the expected results in those countries, and which are grouped as *Key Elements* in the country sections of this report; and
- Common themes of the countries involved in this research, or *international themes* of public sector reforms and performance management practices in these countries, addressed in this section of the report.

Common Themes

During the research, several common themes were found throughout the four countries researched. These can be seen as success factors or important elements of the reforms achieved by these jurisdictions. These themes are:

- Main Drivers,
- Legislative Commitment,
- Leadership,
- Setting Objectives and Measuring Performance,
- Performance-based Budgeting,

⁵ OECD, *In Search of Results: Performance Management Practices*, Paris, 1997.

- Performance-based Human Resource Management,
- Performance Reporting and Reviewing, and
- Building Performance Culture.

Main Drivers

With the economic and social developments after the Second World War, all of the four reviewed countries enjoyed economic growth before the 1970s. However, from the late 1960s, problems arose, and these countries were faced with new challenges. One resolution they chose was public sector reform.

In 1995, the Public Management Service of the OECD released the report entitled *Governance in Transition: Public Management Reforms in OECD Countries*. The driving force or common agenda was identified in the report, e.g., "... encompasses efforts to make governments at all levels more efficient and cost-effective, to increase the quality of public services, to enable the public sector to respond flexibly and more strategically to external changes, and to support and foster national economic performance."⁶ This report identified the ideas of New Public Management and the intentions of the OECD countries. However, the reasons behind this agenda are more complex, and include, for example, the economic problems, dissatisfaction with public sector, new ideas of public management, and other social reasons. These reasons were related to each other and became the main drivers that pushed the public sector reform forward.

Fiscal Problems. Fiscal problems, or economic crises were seen as the most important drivers behind the public reforms of the reviewed countries. From the 1970s on, these countries began to face economic problems after their rapid growth. For instance, political and popular awareness of the federal deficit grew in the United States during the 1980s because of the high levels of defence spending under the Reagan administration and its failure to cut back on social programs. Similarly, from the mid-1970s on, the Australian public sector relied significantly on deficit spending. By the 1980s, Australia's economy was less able to withstand the pressure from a more competitive global economy. As with other countries, the main driving force for these changes was the changing economic situation. In the late 1970s and early 1980s, the New Zealand economy was near the point of bankruptcy because of the collapse of protectionism, the cost of its extensive social safety net, and the changed economic relationship with the United Kingdom. Similarly in the United Kingdom, fiscal problems led to criticisms from politicians and dissatisfaction from its citizens.

Increasing Demands for Better Government. Increasing demands for better government came about as a result of criticisms from politicians and the dissatisfaction of its citizens. Politicians began to suggest that poor government policies caused the stagnation of economies. Citizens demanded more responsible government and better services. For example, as early as the 1960s, Fulton argued that the traditional British

⁶ OECD, *Governance in Transition: Public Management Reforms in OECD Countries*, Paris: OECD, 1995, p.7.

civil service was incapable of dealing with the problems of an increasingly complex society.⁷ The situation was worse in the United States of America. Compared with most European countries, the USA was only a “thin” welfare state⁸, leading to criticisms from its citizens. Since the 1970s, US public opinion has tended to be increasingly critical of both the motive and the competence of the federal government. Many Americans believed that the federal bureaucracy wasted huge sums of money. As a consequence, the USA experienced strong anti-government rhetoric and low public trust. By the end of the 1980s, there were signs of a real collapse of morale within the federal government service.⁹ Even though there was no evidence of popular opinion against the government in Australia and New Zealand, it was clear that the public was unwilling to put up with poor services or economic crises. They demanded improvements in the economy, constrained public expenditures, and the provision of better services which together pushed governments toward public sector reforms.

New Ideas of Public Management. Due to the social problems of the 1960s, there was a global wave of generic managerialism ideas, including management by objectives (MBO), total quality management (TQM), downsizing, benchmarking, re-engineering, and so on. Many countries began to accept the concepts of the New Public Management, which included three dimensions:

- A smaller public sector with downsizing and reorganizing,
- Marketization and commercialization of public programs through a greater reliance of market force or public-private partnerships to deliver services and allocate resources, and
- Adoption of managerialism or private sector experience to improve performance and accountability.

The four reviewed countries all accepted the ideas of New Public Management at different levels. The United States of America was characterized by a “business-oriented”, “free enterprise” culture, and both the Republican Party and the Democrat Party had been willing to build a more “businesslike” government. These factors made it easy for the USA public sector to accept the concepts from the private sector, and the federal administration has shown enthusiasm towards many of the contemporary management techniques. The United Kingdom was also part of the world of managerialism. Mrs. Thatcher focused on public service reforms. She hired Derek Rayner, a businessman, as her first efficiency advisor and brought many other managers into government in various advisory capacities. New Zealand also embraced the new concepts and began its privatization and commercialization in the 1980s. In Australia the concepts began to have

⁷ The British Council, *The Evolution of the UK civil Service 1848-1997*, [www.britishcouncil.org/governance/manag/civil/index.htm], July 1997.

⁸ Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis*, Oxford: Oxford University Press, 2000, p. 278.

⁹ Cited in Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis*, Oxford: Oxford University Press, 2000, p. 280.

a direct and powerful influence after the Howard-led National Government came to power in the late 1990s.¹⁰

Other factors that contributed to the reforms. Demographic changes brought challenges for the public administration and increased the requirements for efficiency and effectiveness of the public service at different levels and different locations. Technological developments enhanced the expectations of citizens and also made more efficient service delivery feasible. The social and economic impacts of globalization required government to respond quickly and appropriately to world competition.

Legislative Commitment

Legislative commitment is one of the most important elements of public sector reforms in all of the four reviewed countries. Laws provided legal support to the reforms, thereby consolidating the reforms and ensuring their continuity. Legislative commitment also provided a legal framework for the reforms, such as setting objectives, identifying priorities, clarifying responsibilities of public servant at all levels, and requiring performance information.

The United States of America

The most important legislation in terms of public sector reform was the *Government Performance and Results Act* passed in 1993, under Clinton's administration, which brought the US public reform into a new era. This comprehensive legislation was intended to improve the effectiveness of the federal government as measured by results, and to do this through better management. Transparency and accountability were introduced as the two core values reflected in it. A key feature of GPRA is that it did not fade away with the end of Clinton's administration, and it still provides strong support for reforms under Bush's administration.

Australia

Legislative commitment has been a critical success factor of Australian public sector reforms over the past 20 years. Laws that support the reform initiatives are comprehensive at three folds:

- Laws were passed at both the federal level and the state level;
- Laws were passed in the fields of performance management, human resource management, and financial management; and
- Laws were amended according to the changing environments.

Legislative supports provide a legal framework for the Australian public sector reforms, making the reform not just an initiative of a single government, but making it a national-wide and lasting initiative toward better performance and accountability.

¹⁰ Christopher Pollitt and Geert Bouckaert, *Public Management Reform*, p. 200.

New Zealand

Legislative commitment is quite clear and strong in the New Zealand public sector reforms where laws related to different aspects of reforms were passed. The *State Sector Act 1988* was designed and passed to grant managers greater authority and flexibility. The Act was seen as the first comprehensive legislation in the public sector reforms in New Zealand. In 1989, the *Public Finance Act* introduced a radically different system of financial management and accountability. The new system completed and consolidated the changes made by the *State Sector Act*, increased the relevance of performance information, improved accountability and shifted financial management away from the detailed control of cost to service quality and government desired outcomes. Another fundamental piece of legislation was the *Fiscal Responsibility Act* passed in 1994, which was designed to redefine the role and responsibility of the state, and establish an environment facilitating responsible and business-like, longer-term public management. These three main laws, along with other laws, such as the *State-Owned Enterprises Act* and the *Crown Entity Bill*, built up the legislative framework, which ensured the continuity of the reforms during the transitions of the Government when different parties were in power.

The United Kingdom

Legislative support for the UK civil service reform was not as strong as in the other three countries, and no comprehensive legal framework was developed. However, there were some laws related to reforms. *The Civil Service (Management Functions) Act* passed in 1992 empowered the government to delegate management functions relating to staff to individual agencies, and the decentralization of the determination of pay and conditions to the agency level has been encouraged. *The Freedom of Information Act* was also passed in 2000 to ensure access to the information of public authorities, thereby enforcing the transparency and accountability of the civil service.

Leadership

Leadership is a critical success factor in reforming the public sector in all the four reviewed countries. Public sector reforms need leadership support from many aspects: truly believing in the reform ideas, communicating with stakeholders and Parliament, developing a clear vision of expected results, identifying priorities, setting objectives, measuring and monitoring programs, and converting the plans into real results. Strong leadership support comes from both the political leaders and the senior managers: leadership from the political level will ensure the continuity of the reforms and consolidating of the previous reforms; and leadership from the management level will contribute to strategic thinking, cultivating a work environment, communication, and achieving results.

The United Kingdom

Leadership has been a critical success factor through the whole process of the civil service reform of the United Kingdom. Evidence suggests that there was strong political support. For instance, some of the *Next Steps* changes were, in practice, very similar to the recommendations of the 1968 *Fulton Report*. However, the practices were achieved in the 1980s, having failed in the 1970s. The key difference between the two attempts was the political leadership. Since the end of the 1970s, when Thatcher's Government came in to power, the leadership support from the political aspect has been strengthened. In the following 20 years, the UK government, no matter Conservative or Labour, has been strongly committed to reforming the civil service towards better government. Leadership for the changes has not only come from the political level, but also from within the civil service. For example, in the case of the Citizen's Charter, high-level commitment across the public service has proved essential, with *Charter Mark* winners.

The United States of America

As with the UK, leadership has been one of the critical success factors during the past two decades of the USA public reforms. President Clinton created the *National Performance Review (NPR)* in 1993, led by Vice President Gore, who demonstrated strong commitment to this reform. Although President Bush did not continue the NPR, he announced the *President's Management Agenda* in 2001, which set out a framework for the federal government and agencies. The principles set out that government should be citizen-centered, not bureaucracy-centered; results-oriented; and market-based, actively promoting rather than stifling innovation through competition.

Australia

Leadership support for the Australian public sector reforms come from both the political perspective and the administrative perspective. All four Prime Ministers during the period covered in this report (Fraser: 1975-1983, Hawke: 1983-1991, Keating: 1991-1996, and Howard: 1996-Present) put their efforts toward better performance and accountability. Clear political leadership can also be found at the state level. For instance, during the election season in 2001, Mr. Geoff Gallop, who later became the Premier of Western Australia, put "honest, accountable and inclusive government" as his number one priority.

Leadership support also comes from the senior executives. Senior managers are responsible to the Parliament and public through their agreements with ministers. The *Senior Executive Leadership Capability Framework* not only established the core criteria for Senior Executive Service selection, but also made the administrative leadership support realistic in terms of strategic thinking, achieving results, cultivating productive working relationships, exemplifying personal integrity, and communicating with influence.

New Zealand

As noted in *The Spirit of the Reforms*, political leadership is essential to the New Zealand Public Sector reforms.¹¹ Both the Labour and National Party focused on improving the economic conditions and accountabilities. Once in power, the National Government continued to press for full implementation of the management model and pursued additional reforms. However, the election of a left-wing coalition ended the bipartisan support for the reforms that had existed for fifteen years.¹²

Leadership support does not only come from political leaders, it also comes from the managers. The New Zealand Public Sector has focused on its leadership capacity for a long time. As the fiscal problem was resolved, the reforms entered a new stage, the main focus of which was to strengthen people, culture, and leadership. It will be fully implemented through the *State Sector Senior Leadership And Management Development Strategy* in the following five years.

Setting Objectives and Measuring Performance

The common objectives of the public sector reforms in all the reviewed countries are to improve performance and accountability, to provide better services to citizens, and to focus on outputs and outcomes rather than focus on inputs. Priorities are identified through strategic plans and key results areas, including short-term, mid-term, and long-term plans. Responsibilities and accountabilities have been clarified through performance agreements or performance plans at all levels. Appropriate measures are developed concerning inputs, outputs, outcomes, efficiency, effectiveness, etc.

The United Kingdom

The Civil Service Reforms of the UK have a clear objective of ensuring accountability for performance. Each organization has a clearly defined task, which is set out in the framework document. Detailed plans are required, setting out aims, goals, and targets that cover financial performance, efficiency, effectiveness, and service quality; measures have been developed for monitoring and reporting. Clear principles have also been published, which can be adapted to fit different circumstances, rather than a completely rigid model.¹³ This has been considered one of the success factors of the reforms.

¹¹ NZ State Sector Commission, *The Spirit of the Reform: Managing the New Zealand State Sector in a Time of Change*, [<http://www.ssc.govt.nz/spirit-of-reform>]. (2006).

¹² Graham Scott, *Managing Government for Better Performance and Results*, [<http://unpan1.un.org/intradoe/groups/public/documents/un/unpan001961.pdf>], Workshop on Financial Management and Accountability, United Nations Department of Economics and Social Affairs and the Government of Italy, 2001.

¹³ For more information about these principles, please refer to the relevant documents.

Audit Commission, *Aiming to Improve: the Principles of Performance Measurement*, [<http://www.audit-commission.gov.uk/Products/AC-REPORT/72370C4D-1030-4b87-88F4-CD2A14B2A1AE/mppperfm.pdf>], London, 2000.

As a comprehensive program, all the major performance management initiatives in the UK have been centrally initiated, and participation is not at the discretion of departments and agencies. Performance targets are set by the ministries after consultation with the agencies. The use of instruments has often been mandatory rather than voluntary. Although the reforms are comprehensive and centrally initiated, it is considered important to ensure flexible implementation. As noted previously, there are basic principles that are easily adapted to fit different circumstances. The three-year cyclical *Comprehensive Spending Review* also provides department and agencies flexibility in setting and adjusting their targets. A critical part of the spending review process was the use of *Cross-Cutting Reviews*¹⁴ to determine how best to co-ordinate the work of those departments that shares an interest in the overlapping areas and ensure delivery.

One problem raised and addressed was the excessive number of targets to measure, leading to incomplete performance information from the agencies. Another problem was that items targeted and measured for agencies did not necessarily reflect the most important aspects of their activity, but rather were the easiest to count at the point when targets needed to be designed. A general lesson learned from these reforms was the need for greater sophistication in the use of performance measures.

The United States of America

The objective of public reform in the USA has been to transform departments and agencies into lean, flexible organizations that emphasize performance and accountability for government spending by measuring the outputs and outcomes rather than only the amount of money spent.

According to GPRA, departments and agencies were required to develop strategic plans and annual performance plans, defining these performance goals for a fiscal year. GPRA also required the Office of Management and Budget to prepare an annual government-wide performance plan, which would be based on the strategic plans of agencies and would be part of the budget of the fiscal year. The President's Management Agenda (PMA) also combined the government-wide priority areas with specific agencies areas.

Different types of measures have been used in the USA public reforms including, for example, input, output, outcomes, efficiency and effectiveness measures. Among these, GPRA and the PMA clearly focus on outputs and strategic outcomes. As "Putting customers first" is one of the central elements of the performance management reforms in the USA, detailed customer service standards have been set, and customer satisfaction is one of the most important measures.

National Audit Office, *Measuring the Performance of Government Departments*, [http://www.nao.gov.uk/publications/nao_reports/00-01/0001301.pdf], London, 2001.

¹⁴ HM Treasury, *Cross-Cutting Reviews*, [http://www.hm-treasury.gov.uk/spending_review/spend_ccr/spend_ccr_index.cfm], London, 2000.

Performance management reforms, such as GPRA, NPR, and PMA, have been initiated from the top. However, attention has been paid to allow for flexible implementation according to the needs of different agencies. Central requirements are usually not very prescriptive. For instance, GPRA gave departments and agencies several years to develop their first strategic plan and annual performance reports; PMA also set two-part scorecards to encourage those departments and agencies with poor performance to make greater improvements in the following year.

Australia

The main and overall objectives of Australia's public sector reforms are to improve the performance and accountability of the Australian Public Sector and to provide better services to its citizens. The goal is to improve public sector productivity and efficiency by reallocating resources and putting them to more effective use rather than finding direct savings on budgets. To achieve this goal, various reallocation agreements and regulations have been signed between the federal government and the states, between the finance department and other departments, and between the departments and agencies. For instance, New South Wales developed the *Service and Resource Allocation Agreements* in year 2000. Ministries, agencies, and employees are also required to develop clear objectives and goals.

Measurement and benchmarking of performance is another key element in the Australian public sector reforms. Departments and agencies at both the federal level and the state level have focused on developing measuring systems. The measures are of all types, both qualitative and quantitative, including inputs, workloads, outputs, service quality, and outcomes, but the emphasis is on the development of outcome measures. Two examples of clear measures are the *Managing for Outcomes Model* of Queensland and the *Output-Based Management* of Western Australia.

New Zealand

Since the main driver behind New Zealand's reform was its fiscal problems, the objectives of the country's public sector reforms were firstly focused on improving financial management and reforming the bureaucracy and process. Another objective was to meet the public demand of higher quality service while retaining fiscal responsibility. The reforms during 1984 and 2000 can be described as the development of managerialism with a focus on outputs.

Ever since the *State Sector Act 1988*, expectations of chief executives have been clearly set in performance agreements and purchase agreements. Beginning in 1993, a strategic management system was established. It outlined the Government's strategic vision for New Zealand in the medium term. The strategic management system also involved interactions among Ministers, chief executives, and central agencies. The system introduced the *Strategic Results Areas* (SRAs) in a government-wide plan and *Key Result Areas* (KRAs) in departmental plans and individual agreements.

Before 2000, a key feature of the New Zealand public management was its emphasis on outputs rather than outcomes in the performance management process. The measures were then focused on the quantity, coverage, timelines, cost, and quality of outputs. With the development of the performance management system, the New Zealand Public Sector began to shift its emphasis to outcomes. One of the main priorities of the new government is a greater focus on results. The Minister of State Services noted that since year 2000, public management in New Zealand has been moving towards leadership and outcomes (getting results).¹⁵

Performance-based Budgeting

As the budget is one of the critical areas to a review of government performance, performance-based budgeting has an important role in the performance management systems of the reviewed countries. Two proposed advantages of a performance-based budget process are that:

- the size of the budget will be related to past performance; and
- making targets explicit and using performance information will provide budget process stability and a long-term budgetary commitment.

The United Kingdom

In the UK, the allocation of resources is combined with the setting of annual performance targets. The most significant practice in performance-based budgeting are the *Comprehensive Spending Reviews*, which allow government to tie the allocation of resources by departments to the achievement of specific and measurable performance targets and give flexibility to the internal budget process of departments.

The United States of America

One of the GPRA's objectives was to move federal budgeting to performance-based budgeting. GPRA has always envisioned the complete integration of the annual performance plan with the budget. Both strategic plans and annual performance reports were to be included in the budget plan of the fiscal year.

As well, two of the five priority areas of the President's Management Agenda are *Improved Financial Performance* and *Budget and Performance Integration*. Senior officials at the Office of Management and Budget have described performance-based budgeting as the Bush administration's top management priority. The importance of this reform has been emphasized in the President's Budget each year. Even more significant is the fact that OMB has outlined specific requirements for the initial phases of this reform, both as part of the *President's Management Agenda* and as key elements in the *Program Assessment Rating Tool*.

¹⁵ NZ State Sector Commission, *Current Problems in Public Management*, [<http://www.ssc.govt.nz/current-problems-public-management/>] 2003.

Australia

The goal of Australia's public sector reforms is to achieve productivity and efficiency through effective resource reallocation rather than through direct savings. The budget system is clearly aligned to this goal. *Resource Agreements* were signed, providing flexibility beyond what is normally available in the budget process, and serving as a complementary management tool to the budget process. Departments and Agencies are required to report the outcomes against the inputs, and this performance information is also used in the budget process. Legislative frameworks to ensure financial management and accountability have also been established at both the federal level and the state level.

New Zealand

New Zealand probably has the closest link between the allocation of resources and performance.¹⁶ Performance measurement is linked to the budget process directly through the *Purchase Agreements* and *Output Budgeting*. Under the *Public Finance Act 1994*, ministers are responsible for determining the outcomes the government seeks. The Government then selects the outputs that can best provide the outcomes and allocates resources to them. The budget process is based on performance information about the volume and price of the outputs, rather than inputs. The objective is to link, as closely as possible, resource allocation with performance.

Performance-based HR Management

Human capital is critical to performance management. Common incentives to improve performance are to introduce the performance concepts to employees at all levels, to provide clear directions for performance target setting, to provide financial awards or job enrichments, and to provide training opportunities for employees to improve their performance.

The United Kingdom

Performance-based pay is seen as an important aspect to improving civil service efficiency. The Civil Service of the UK also placed performance-based pay as a key element of its reforms. Performance information is increasingly important in relation to the pay arrangement. For example, a key principle of the *Citizen's Charter* is to link the individual's pay and his or her contribution to the achievement of the organization's objectives. The employment of the chief executive of a *Next Steps* Agency and his or her performance pay relate to the agency's performance against the targets set by the minister.

¹⁶ OECD, *Governance in Transition: Public Management Reforms in OECD Countries*, Paris: OECD, 1995, p.23.

The *Public Sector Excellence Programme*¹⁷ (formerly called *Public Benchmark Project*) encourages organizations and their managers to conduct self-assessments against the *Business Excellence Model*, which helps them better understand their performance and their position relative to other organizations, and better identify their strengths and areas for improvement. The program encourages the public sector to share best practices more systematically with each other, with the private sector, and with most successful government bodies.

The United States of America

Various performance-based pay arrangements have been used in the federal government, including cash awards, merit pay, bonuses, and sharing of productivity gains. For instance, the *Civil Service Reform Act* passed in 1978 introduced performance appraisal and merit pay. NPR also developed the *Hammer Award* to encourage teams and individuals to work towards the direction of greater accountability. NPR also requested that agencies should design their own performance pay system. One goal of NPR was to empower employees to get results. PMA also recognized the importance of human resource management, which was defined as the first of its five priority areas, entitled *Strategic Management of Human Capital*.

Australia

The main focus of human resource management in the Australian public service is to improve staff performance by building better labour and management relationships, staff training, and performance-based payments.

Laws have been passed to ensure that recruitment to the public sector is based on merit and performance. Training has been provided to staff from all levels of the public sector. For instance, the *Middle Management Development Initiatives* of the early 1990s focused on those managers with substantial people management responsibilities, while the *Senior Executive Leadership Capability* improved the performance of senior managers and executives. The development of a performance-based pay system had been a key element of performance management ever since the early 1980s, before it finally became a special feature of the Australian public service. Unions have important roles in developing a better labour relationship in the public sector and in developing the performance-based pay system.

However, there is also an argument that a strong performance culture has not emerged within the Australian public service despite the introduction of performance-based pay. Michael O'Donnell contended that in the Australian public service, managerial prerogatives were used in an arbitrary and subjective manner, with favourites rewarded and others less favoured potentially victimised.¹⁸ He found that those officers

¹⁷ UK Cabinet Office, *Public Sector Excellence Programme*, [<http://www.cabinet-office.gov.uk/eeq/1999/benchmarking.html>], London.

¹⁸ Michael O'Donnell, "Creating a Performance Culture? Performance-based Pay in the Australia Public Service", *Australian Journal of Public Administration*, Vol. 57, No. 2, June 1998, p. 34.

working in “high-profile” areas also received the highest rating, while senior officers working in “lower-profile” service areas, such as delivery services or corporate services, tended to receive merely “satisfactory” rating scores.¹⁹ The author suggested that more focus should be placed on improving the quality of performance feedbacks provided by supervisors.

New Zealand

In New Zealand, performance-based human resource management was introduced as a part of its overall reforms. As early as the *State Sector Act 1988*, clear requirements of responsibility and accountability were set up for chief executives. The roles of Responsible Ministers, Chief Executives and senior managers in terms of ownership are defined in the purchase agreements and performance agreements. Given that chief executives are on fixed-term contracts, the reputation of being a high performer is critical, should they wish to secure chief executive appointments in the future. Another important initiative for managers is the *State Sector Senior Leadership And Management Development Strategy*, which focuses on improving the leadership capacity.

Some scholars noted, however, that too much weight was put on the minister-chief executive relationship, and that the idea that chief executives followed individual contracts might lead to a loss of the collegiality and shared experience of the public service as a whole.²⁰

Under the instruction provided by the *State Sector Act*, the State Sector Commission published the *Service Code of Conduct* in 1990, the purpose of which was to offer guidance on the standards of behaviours required of public servants. Three principles were also established: that employees should fulfill their lawful obligations to Government with professionalism and integrity; employees should perform their official duties honestly, faithfully and efficiently, respecting the rights of the public and their colleagues; and employees should not bring their employers into disrepute through their private activities.²¹

Staff are hired based on their merits, and flexible pay agreements based on performance appraisals are used for most staff; this, along with clear objectives, is said to have led to clarification of goals and improved performance of staff. Training is another important aspect of human resource management. The Chief Executive of the New Zealand Public Service, with the support of the State Services Commission, established the Management Development Centre (MDC) in 1995 to promote excellence in the education, training and development of Public Service leaders and senior managers.

¹⁹ *Ibid.*

²⁰ Simon Smelt, *Operational Efficiency in the New Zealand Public Sector*, [<http://firms.findlaw.com/smelt/memo6.htm>], World Bank, 1997.

²¹ NZ State Sector Commission, *Public Service Code of Conduct*, [<http://www.ssc.govt.nz/coc/>]. 2001

Performance Reporting and Reviewing

The backbone of a performance management system is the performance information system, which includes the collecting, reporting, reviewing, and using of performance information. Collecting and using performance information has been covered in the sections on measuring performance, performance-based budgeting, and performance-based human resources management. This section will focus on performance reporting and reviewing.

In all the four reviewed countries, annual performance reports are required, in which performance will be reported against performance targets, performance agreements, or performance plans. Central agencies are responsible for reviewing the quality of the performance reporting process to ensure it is accountable and transparent. Performance information is also considered and used in the next planning cycle. As well, special reviews may be taken by independent review groups or committees based on the requirement of the Parliament or the central agencies. New assessing and reporting tools, such as Scorecards and Report Cards, have also been developed and put in use.

The United Kingdom

The department and agencies are responsible and accountable to the Parliament and the public through periodic reports. For instance, all the *Next Steps* Agencies publish annual reports and accounts. In addition, the Cabinet Office publishes the annual *Next Steps Reviews*, summarizing the performance of all the Executive Agencies and providing comparative data. Similarly, there are annual reports published by the Cabinet Office on the *Modernising Government Program*. Performance information from these reports will be used in budgeting and planning processes for the future. From the review perspective, it is important to have the ability to review initial changes before too long. In the *Next Steps* program, for instance, this is done by regularly reviewing agency framework documents. Over time, the focus of these reviews has been more and more on outcomes. As noted in the *Modernising Government* White Paper, reviews will take into account the views of customers, and look at the scope for improving services through collaboration.

The United States of America

The General Accounting Office assists the Congress in its oversight of the executive branch and encourages effective management and accountability. The Office of Management and Budget helps agencies develop their reports. Great attention has been paid to performance reporting and reviewing, and the performance information has been used in the budgeting process. For instance, GPRA required all the departments and agencies to develop strategic plans and annual reports, which would be assessed by GAO and OMB. To support the President's Management Agenda, OMB developed scorecards for departments and agencies. The quarterly reviews and annual reports help departments understand their own strengths and weaknesses and make progress.

Australia

Annual reports, as the key performance reporting documents, are to provide information to enable Parliament to make fully informed judgements on departments and agencies. Since the mid-1990s, annual reports have included performance information that was previously included in budget documents (known as performance statements). Annual reports are also required to focus on outcomes and to reduce the amount of activity-related information. The Department of Finance is responsible for reviewing the budgeting and performance information, while the Australia National Audit Office (ANAO) has overall responsibility for reviewing the reports.. During the early 1990s, the Department of Finance commissioned two independent reviews, *Effective Reporting in Program Performance Statements*²² in 1993 and *Performance Reporting in Commonwealth Annual Reports*²³ in 1995, both of which identified some problems with performance information.

An important feature of the Australian reviewing system is the role of the administrative review bodies. The Administrative Tribunal (AAT) and the ombudsman are the two principal federal administrative review bodies²⁴. The review bodies were established to enhance accountability of executive ministers and officials to all of the Australian people for "micro-level" decision-making including policy that affects individual interests.

New Zealand

Defining and monitoring purchase and ownership performance requires comprehensive information about the full costs. For this reason, all government entities in the New Zealand Public Sector are required to report financial performance on an accrual accounting basis, using the same generally accepted accounting practices. Each department must provide a full set of financial statements to their ministers and the Treasury on a monthly basis. In addition, departments must also submit an audited annual *Statement of Service Performance*, outlining the outputs produced versus the outputs agreed. Departments also report publicly against their *Department Forecast Report*.

The New Zealand Audit Office has overall responsibility of reviewing the performance of the public sector in both financial and non-financial areas. Ad hoc reviews of specific programs are also undertaken, both in relation to new policy objectives and expenditure pressures. Another important feature of the reviewing activities in New Zealand's Public Sector is the independent review. For instance, both the *Logan Review 1991* and the *Spirit of the Reforms 1996* were led by independent review groups. The Logan Review recommended that a standard of good performance for

²² Sue Funnell, Australian Department of Finance, *Effective Reporting in Program Performance Statements*, Canberra, 1993.

²³ DGR Consulting and Australian Department of Finance, *Performance Reporting in Commonwealth Annual Reports*, Canberra, 1995.

²⁴ Other major review bodies are the Immigration Review Tribunal (IRT), the Refugee Review Tribunal (RRT), the Social Security Appeals Tribunal (SSAT), and the Veteran's Review Board (VRB).

a department should be the existence of a program of self-review covering internal audit and financial controls, management review, and evaluation of output effectiveness.²⁵ These reviews provide government and Parliament with clear performance information for future directions.

Building Performance Culture

Building a performance culture includes changing the way government works and changing the way people think. With the progression of their public sector and performance management reforms, all four countries have been building a performance culture. Leaders, managers, employees, and citizens, it is suggested, truly understand and believe in the performance concepts. The emphasis of management is being changed from focusing on inputs to focusing on outputs and outcomes. Expectations are set through performance plans, and results are reported against the targets set. Employees are said to feel comfortable making suggestions for improvement and questioning the policy or practice of government. In summary, a more outcome-focused, citizen centered, and performance-oriented culture is being built in these countries.

The United Kingdom

Civil Service Reform does not only refer to the changes in the structure of the government or of policies, but also to changes in the culture and mentality of people. After many years of reform in the UK, the majority of people working in the public sector, it has been suggested, share the view that this has been a radical change and that it has brought significant benefits in terms of efficiency, effectiveness, clear focus on results, greater transparency, and greater accountability to taxpayers. Moreover, the concepts of delegation, wider business/customer involvement, and the introduction of experience from the private sector have all been applied widely across the public sector. All these changes are said to be building a performance culture.

The United States

Along the road towards greater accountability, the overall goal of the USA public management reforms is to make the government citizen-centered, performance-oriented, results-focused, and market-based. The past reforms also focused on changing the way government works with business and communities, seeking to serve Americans better, transforming access to government through technology, and making the government a better place to work. With the progressing of the reforms, these concepts have taken root in the minds of political leaders, administrators, public sector employees, and citizens, leading to a performance-based culture.

²⁵ OECD, *In search of Results: Performance Management Practices*, Paris, 1997, p. 83.

Australia

After more than two decades of public sector reforms, the focus has shifted to an emphasis on outcomes rather than inputs or processes. Significant advances in accountability have been achieved by breaking down central control in finance and employment, establishing resource agreements, developing a performance-based pay system, and improving performance information. According to Warren McCann, the chief executive of the Department of the Premier and Cabinet of South Australia, though there was still room for improvement in the system, there was a firmly established performance culture in the public sector throughout Australia, and the basic notion itself—that the public sector was driven to perform—has become an integral part of everything.²⁶

New Zealand

According to the State Sector Commission, the New Zealand public services are more accessible and responsive, more sensitive than in the past to the needs of citizens and clients, and much more efficient, compared to its past and compared to many other countries.²⁷ A culture of performance is said to have penetrated the New Zealand public management. Chief executives and managers know and accept that they are judged on the performance of their organisations. Their responsibilities are set up in the purchase and performance agreements. They accept that improving performance must be an ongoing objective, and that it is necessary that productivity gains in the state sector keep pace with developments in the market economy. Public sector employees are also affected via New Zealand's performance-based human resource management system. Clear direction is provided through the Public Service Code of Conduct.

Summary

Lessons can be learned and leading practices identified from the efforts of these reviewed countries. Among them:

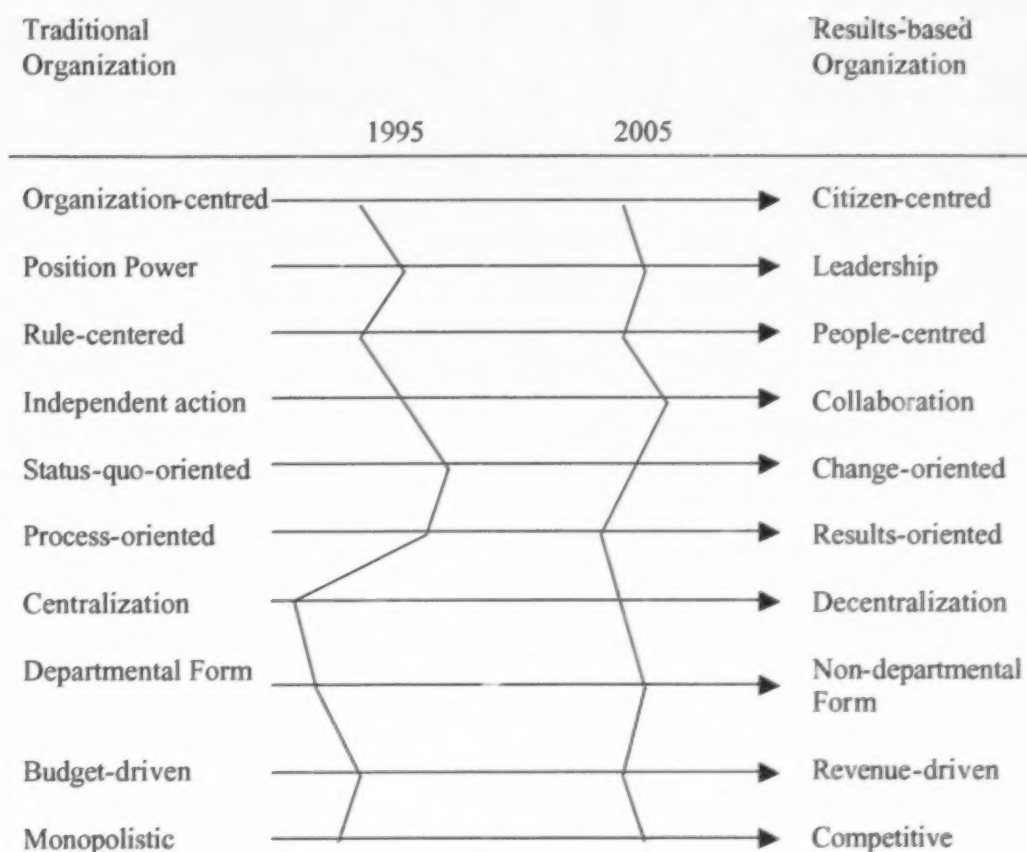
- Improving the performance of government needs strong legislative and leadership commitment, which will ensure the continuity of the public sector reform and the development of a performance culture.
- Reducing public expenditure can be realized through downsizing and reorganizing, for example, by splitting big departments into small functional departments or by reorganizing departments based on their functions, rather than reducing the quantity or quality of public service.

²⁶ Warren McCann, "Institution of Public Administration Australia: Some Observations About the Profession of Public Service", *Australian Journal of Public Administration*, Vol. 60, No. 2, June 2001, p. 111.

²⁷ NZ State Sector Commission, *The Spirit of the Reform: Managing the New Zealand State Sector in a Time of Change*, [<http://www.ssc.govt.nz/spirit-of-reform>], 1996.

- Improving responsibility and accountability requires that detailed performance targets with appropriate flexibilities be signed by departments and employees through performance-based budgeting and performance-based human resource management at different levels, and that employees, agencies, and departments report their performance against the assigned targets on a regular basis.
- Improving government efficiency and effectiveness requires performance information systems, which include the collecting, reporting, reviewing, and using of performance information.
- Improving government transparency requires more communication and consultation with citizens, stakeholders, interest groups, and the private sector, better partnerships with the private sector, and stronger coordination at different levels of government.

As suggested in *The New Public Organization*, public sector organizations should be citizen-centred, people-centred, change-oriented, and results-orientated. (Figure 1.) Given these efforts by many governments, one can expect continued international development toward this goal.

Figure 1. New Public Sector Management – Progress of an Organization Over Time²⁸

²⁸ Source from Kenneth Kernaghan, Brian Marson, and Borins Sandford, *The New Public Organization*, IPAC, 2000.

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